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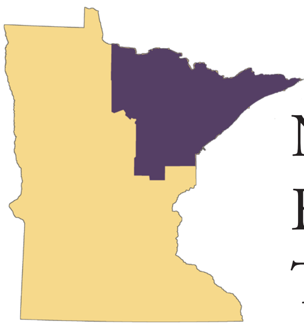
Northeast Minnesota Economic and Business Conditions Report - Third Quarter 2015

Richard A. MacDonald
St. Cloud State University, macdonald@stcloudstate.edu

King Banaian
St. Cloud State University, kbanaian@stcloudstate.edu



Northeast Minnesota
Economic and Business Conditions Report
Third Quarter 2015

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary

Business conditions in Northeast Minnesota are expected to be steady over the next several months according to the predictions of the Northeast Minnesota Index of Leading Economic Indicators (LEI). While three of the five components of the LEI decreased in this year's third quarter, the overall index turned only slightly negative following a strong reading three months ago. A decline in initial jobless claims in the region and a large increase in filings for new business incorporation contributed favorably to this quarter's LEI. Lower residential building permits in the Duluth/Superior area, weakening of a general measure of state business conditions, and a decline in a supply managers' survey index served as a drag on the leading index in the third quarter.

There were 467 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the third quarter of 2015 — representing a 1.1 percent decrease from one year ago. Forty-two new regional business incorporations were filed in the third quarter, representing a 17.9 percent improvement from 2014. New limited liability company (LLC) filings in Northeast Minnesota were essentially unchanged at 245. New assumed names totaled 159 in this year's third quarter—a 3 percent decrease from the third quarter of 2014. There were 17 new filings for Northeast Minnesota non-profit in the 2015 third quarter—eight fewer than one year earlier.

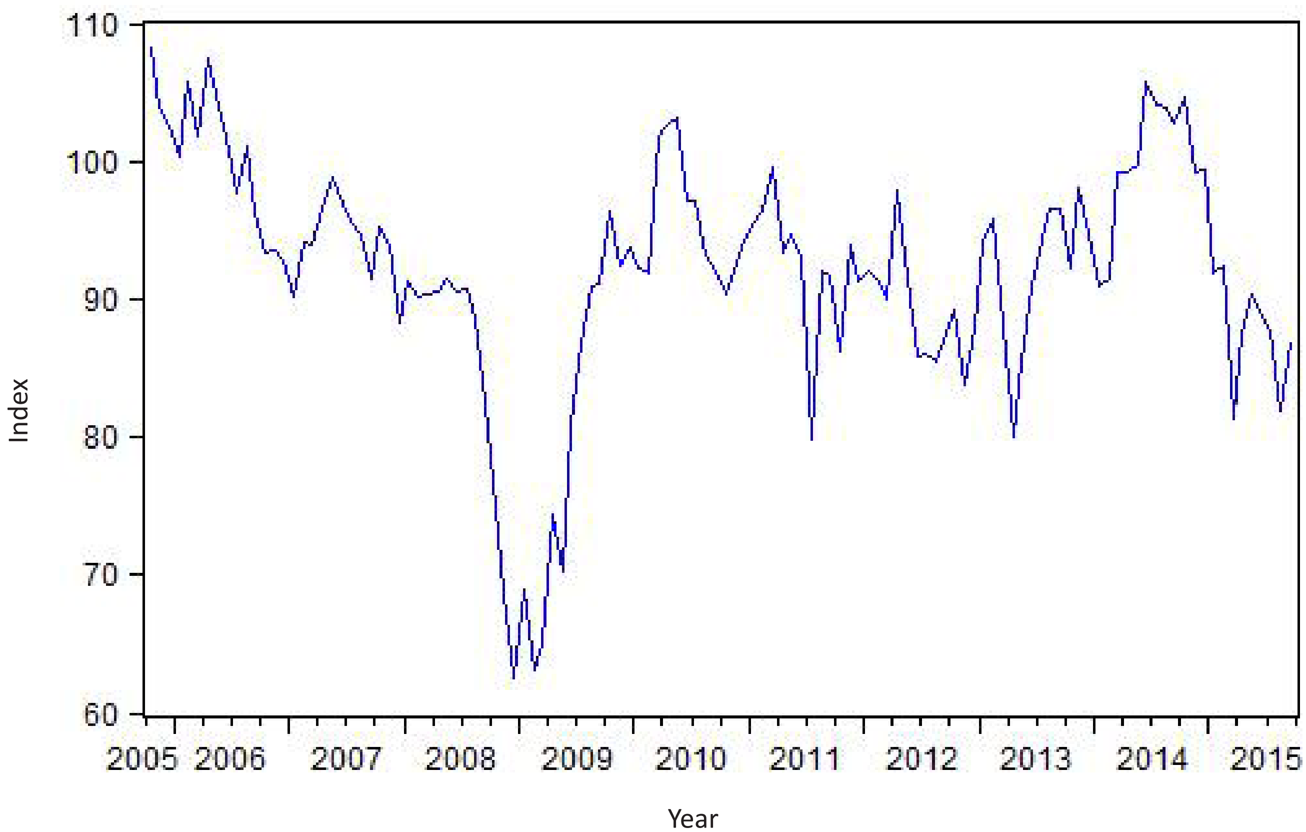
Northeast Minnesota employment was 0.3 percent lower than year earlier levels in September. The regional unemployment rate increased to 4.6 percent (it was 4.3 percent in September 2014) and the labor force contracted by 0.1 percent. The regional labor force is now 4,662 lower than in September 2010. September 2015 initial claims for unemployment insurance were 91 lower than the year earlier (a 9 percent decrease) and job vacancies declined precipitously in the second quarter of the year. There are now 69.79 regional job vacancies per 100 unemployed—considerably lower than the 121.47 figure reported in the fourth quarter of 2014.

Economic performance in the Duluth/Superior Metropolitan Statistical Area (MSA) was mixed. Northeast Minnesota's largest market experienced a 0.7 percent rise in overall employment over the year ending September 2015, and the key education/health sector added jobs. The length of the workweek also rose. However, average hourly earnings fell, the area unemployment rate rose and the labor force decreased. The value of residential building permits was 70.9 percent lower in September than one year earlier.

Northeast Minnesota Leading Economic Indicators Index

The SCSU Northeast Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. After a 7.58 point gain in this year's second quarter, the LEI edged 1.81 points lower in this year's third quarter. The LEI is now 15.3 percent below its level one year ago. As can be seen in the accompanying figure, the LEI has shown considerable quarterly volatility since the end of the Great Recession, so the current negative reading of the index could easily be reversed in coming quarters.

The SCSU Northeast Minnesota Leading Economic Indicators Index



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 3rd quarter 2015	Contribution to LEI, 2nd quarter 2015
Minnesota Business Conditions Index	-0.17	0.57
Northeast Minnesota initial claims for unemployment insurance	3.85	-1.56
Northeast Minnesota new filings of incorporation	0.09	1.34
Duluth-Superior MSA residential building permits	-2.38	5.31
Institute of Supply Management Purchasing Managers Index for manufacturing	-3.20	1.92
TOTAL CHANGE	**-1.81**	**7.58**

Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's purchasing managers' index is used as a proxy for demand for production in the region. This indicator decreased in the third quarter. A large decline in Duluth/Superior MSA residential building permits was also a drag on this quarter's leading index, as was recent weakness in the Minnesota Business Conditions Index (which is used an indicator of general statewide business conditions). Lower initial claims for unemployment insurance had a favorable impact on the LEI in the third quarter, while Increased new filings for business incorporation in Northeast Minnesota slightly improved the LEI.

SCSU Northeast Minnesota Leading Economic Indicators Index	2015	2014	Percentage change
Minnesota Business Conditions Index September	53	66.3	-20.1%
Northeast Minnesota initial claims for unemployment insurance September	918	1,009	-9.0%
Northeast Minnesota new filings of incorporation Third Quarter	46	39	17.9%
Duluth-Superior MSA single-family building permits September	9	34	-73.5%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, September	50.2	56.1	-10.5%
Northeast Minnesota Leading Economic Indicators Index September (December 1999 = 100)	87.0	102.7	-15.3%

Northeast Minnesota Business Filings

Total new business filings fell by 1.1 percent compared to the third quarter of 2014. The 12-month moving total of this series had trended upward since the end of 2011, but it has weakened in recent quarters. After a precipitous drop in the pace of new business formation during the Great Recession, new business filings in Northeast Minnesota still have not returned to the pace observed ten years ago.

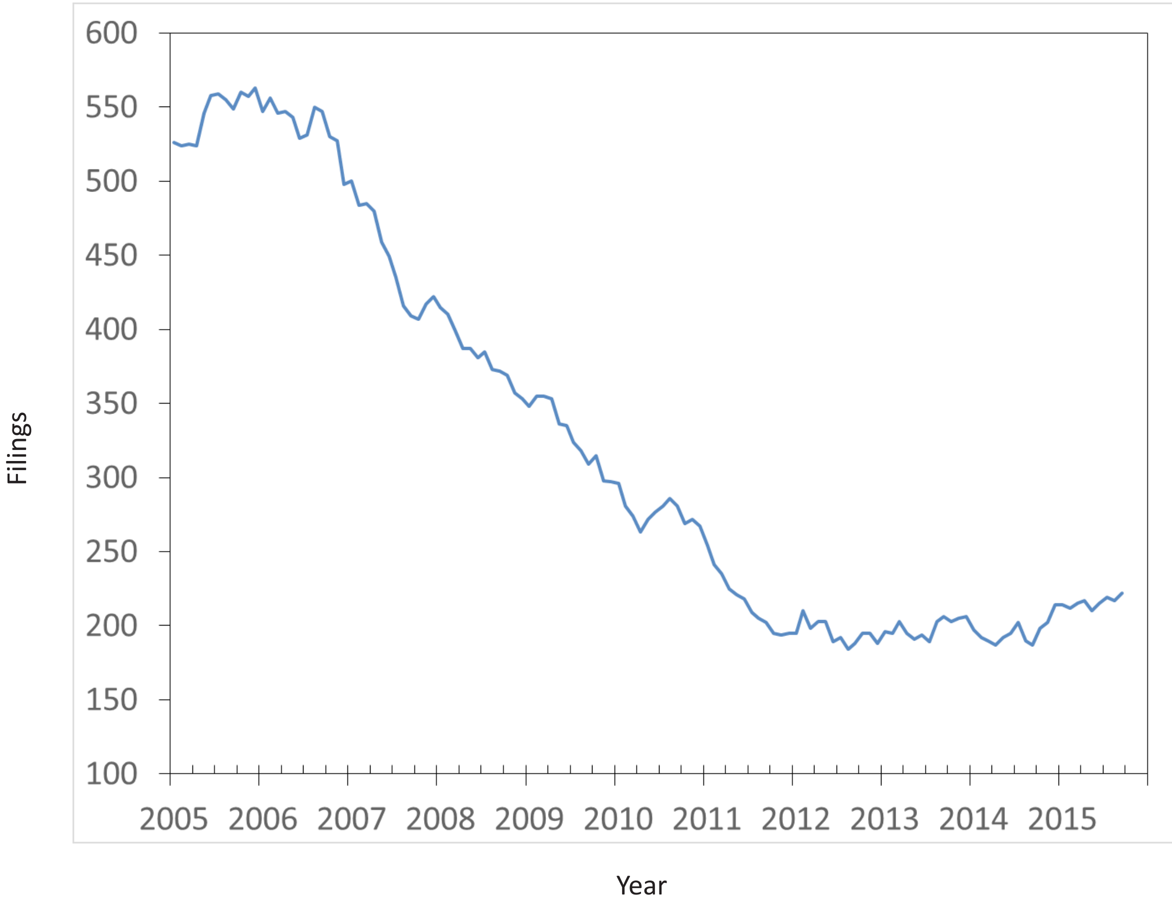
Note: The graphs in this section show the 12-month moving total for the various new business filings in Northeast Minnesota that are registered with the Office of the Minnesota Secretary of State. This adjustment is used to remove seasonal patterns in the data.

Total New Business Filings—Northeast Minnesota Planning Area (12-month moving total)

Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Northeast Minnesota Total New Business Filings	472	478	547	559	467	-1.1%

New filings for business incorporation have flattened out since the beginning of 2012. However, there was a 17.9 percent year-over-year increase in new filings for incorporation in this year's third quarter.

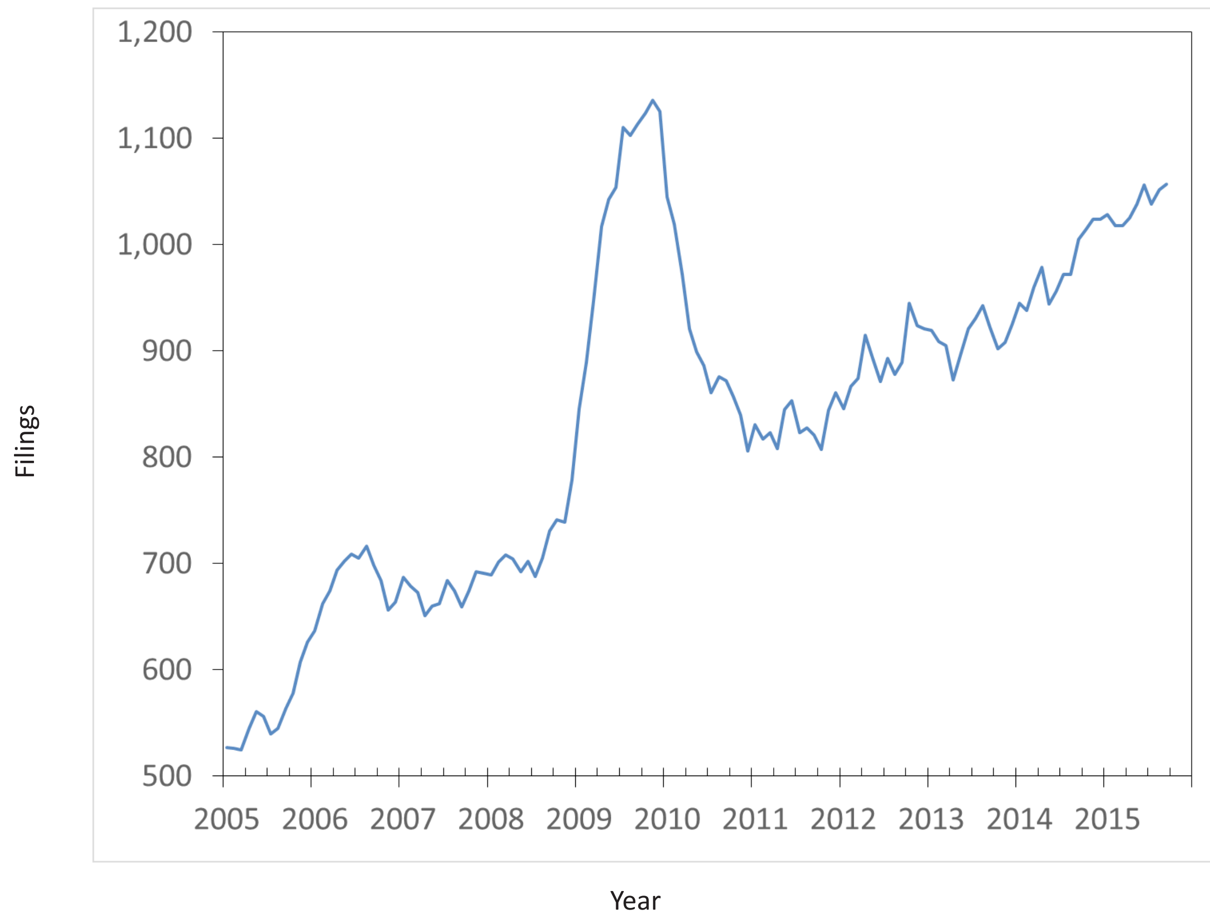
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Northeast Minnesota New Business Incorporations	39	69	55	52	46	17.9%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northeast Minnesota. This trend moderated in the third quarter as new filings were largely unchanged from the same period one year ago. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) was related to considerably higher filings in the construction industry and appears to be a one-time only transitory event seen in the data in all regions of Minnesota.

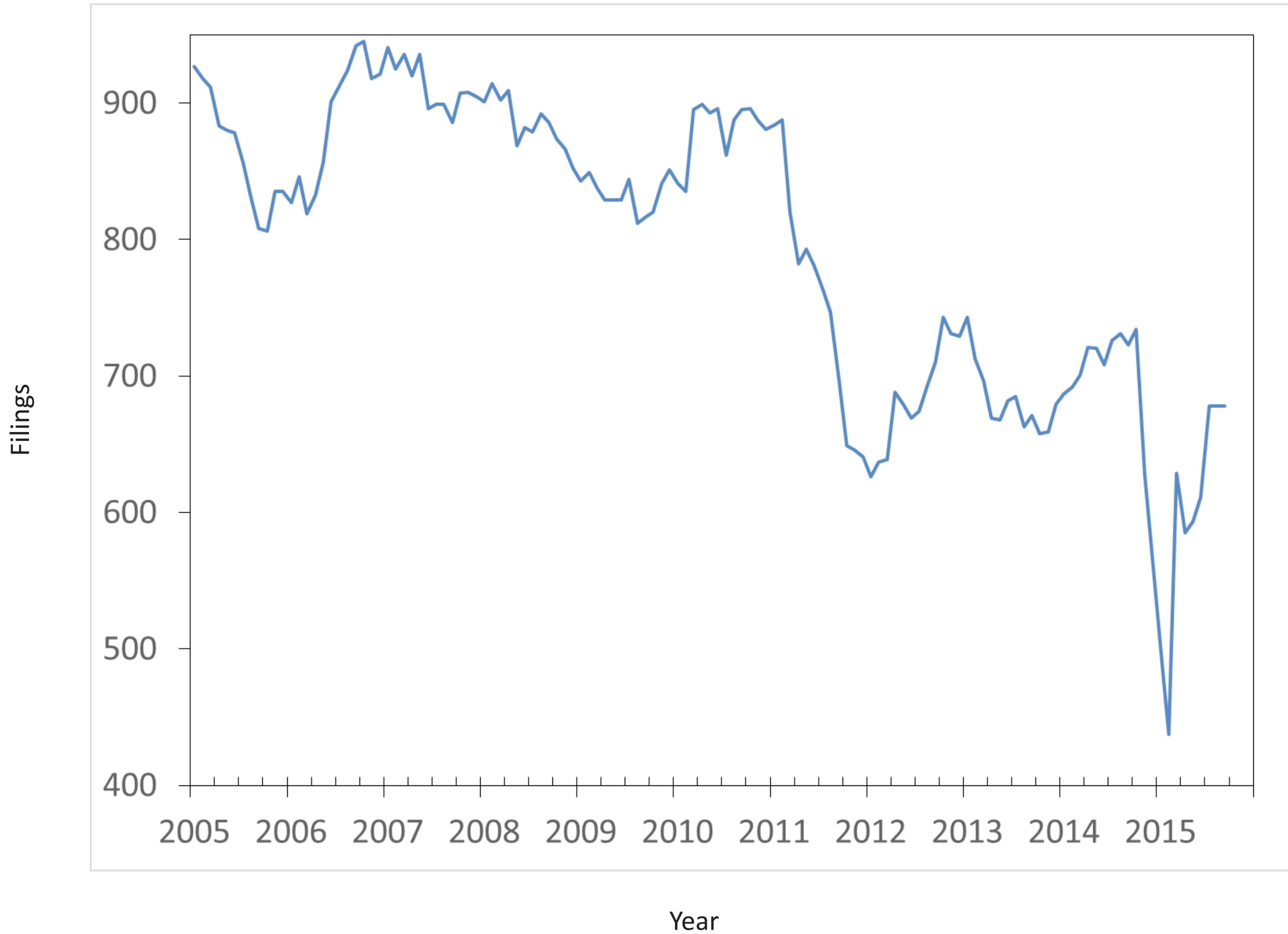
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	244	259	260	293	245	0.4%

Compared to last year's third quarter, assumed names declined 3 percent in Northeast Minnesota. After leveling out from 2011 to 2014, new assumed names filings in Northeast Minnesota declined precipitously in 2014. The series remains well below its level of the mid-2000s.

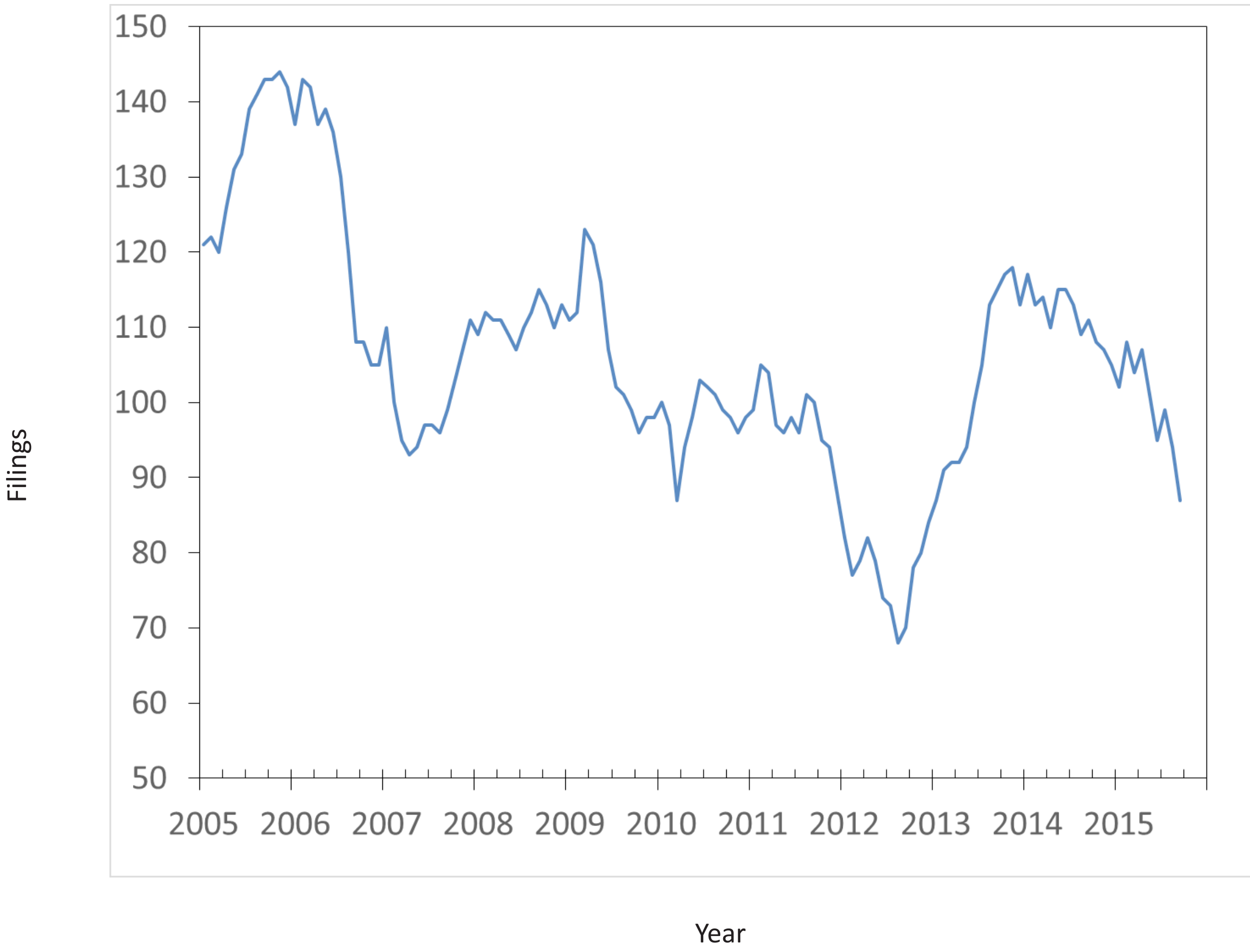
New Assumed Names—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Northeast Minnesota New Assumed Names	164	128	106	192	159	-3.0%

There were 17 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the third quarter of 2015, eight fewer than were recorded one year ago.

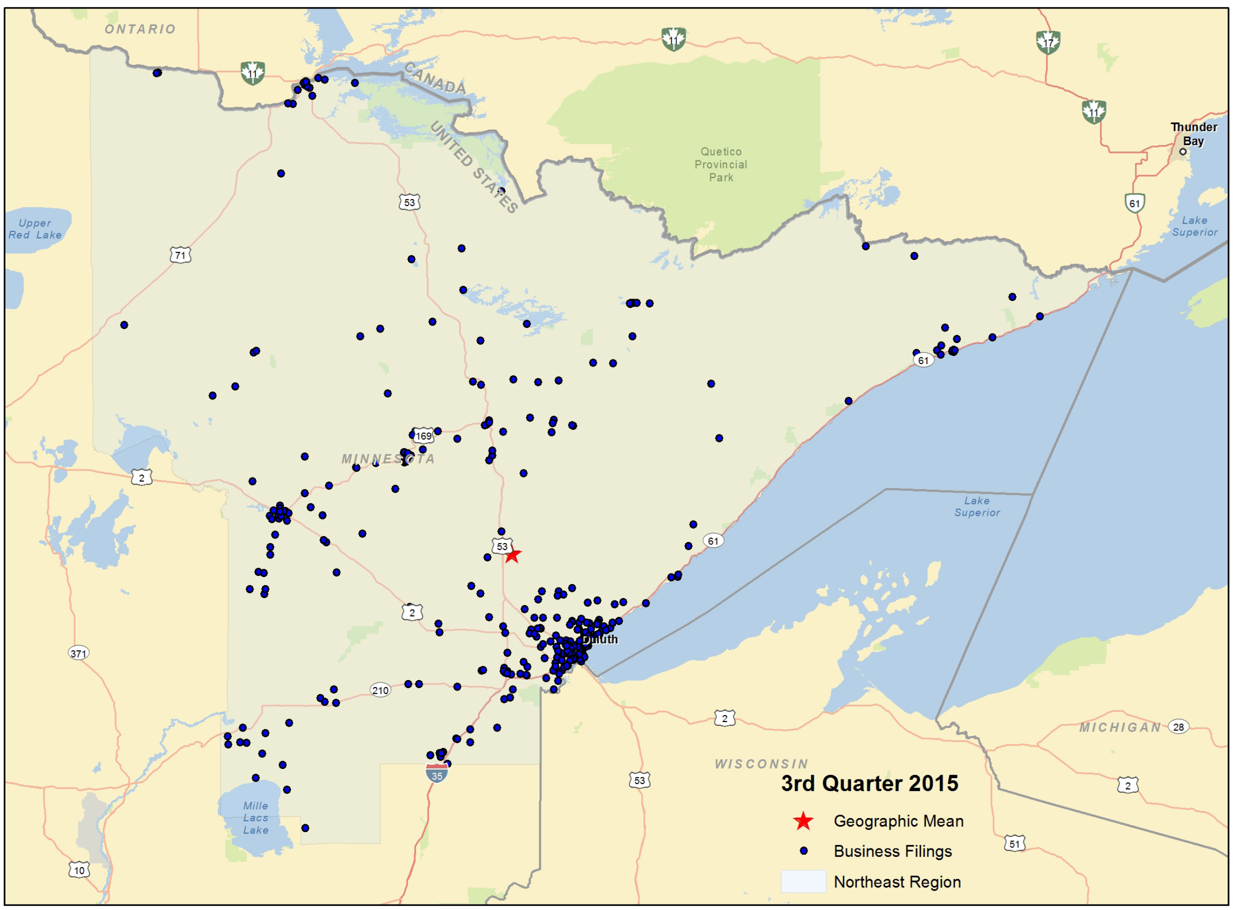
New Non-Profits—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Northeast Minnesota New Non-Profits	25	22	26	22	17	-32.0%

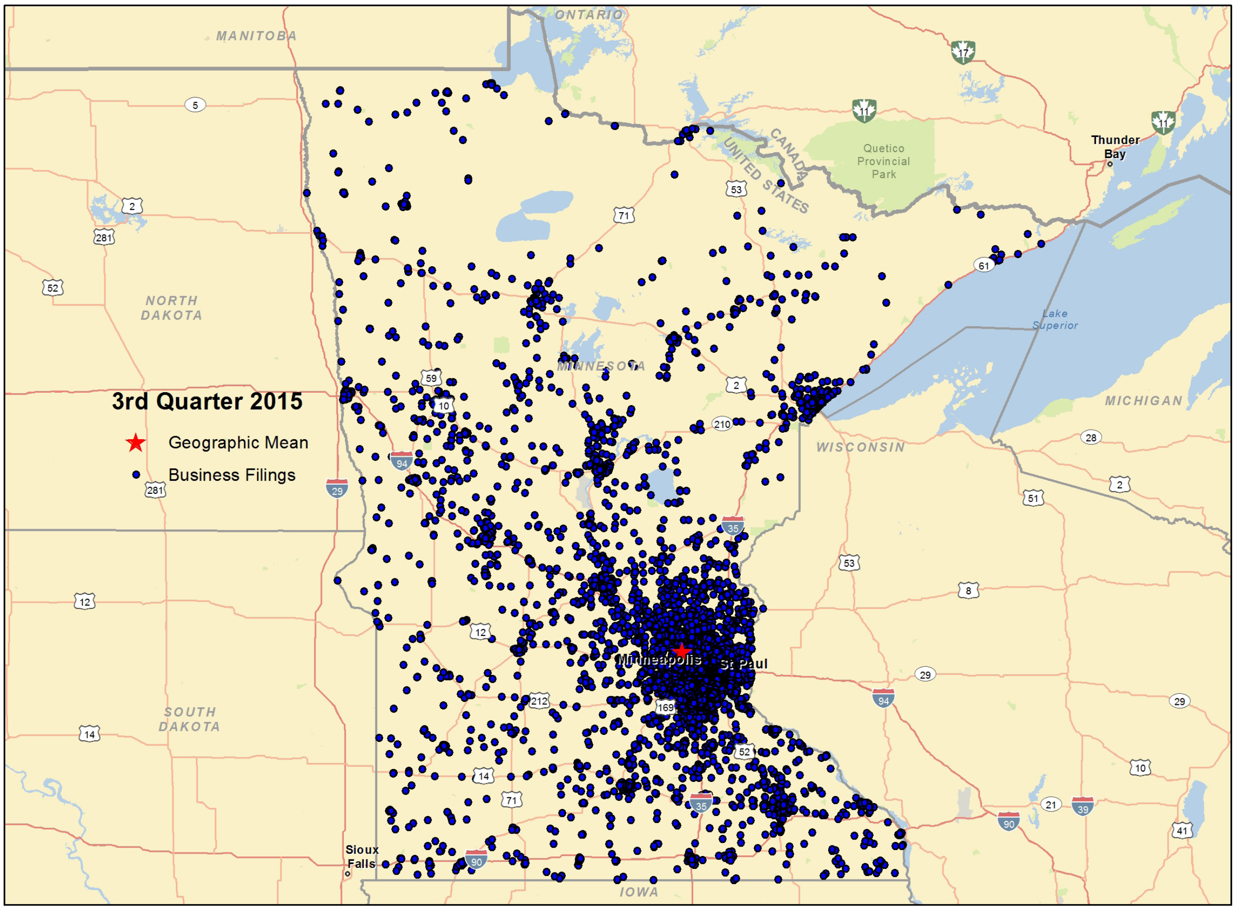
The first map shown below is a visual representation of new business formation around the Northeast Minnesota planning area in this year's third quarter. The densest areas of new business formation are in the Duluth metro. The geographic mean shows the center of all these points lies along U.S Highway 53 between Cloquet and Eveleth, showing the smaller pull of the Iron Range versus larger Duluth. Well-traveled roadways are also a predictor of new business formation in Northeast Minnesota.

Northeast Minnesota Planning Area — New Business Formation — Quarter 3: 2015



The second map shows new business formation around the entire State of Minnesota in the most recent quarter. Note the dominance of the Twin Cities metropolitan area in statewide new business formation. This also reinforces the importance of roadways (and the Mississippi River) in new business filing locations. Also noteworthy is the extent to which the spread of new businesses extends both Northwest (towards St. Cloud) and South (towards Rochester and Mankato).

State of Minnesota--New Business Formation--Quarter 3: 2015

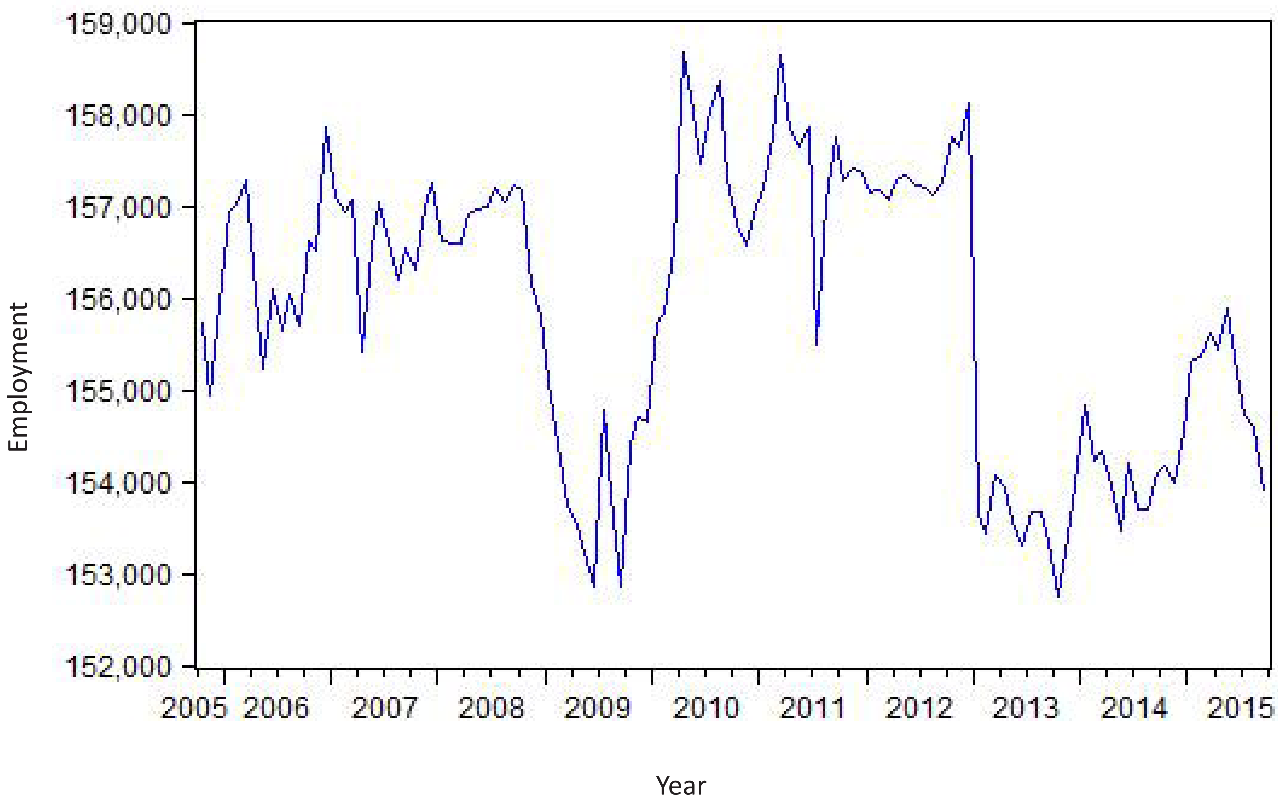


Northeast Minnesota Labor Market Conditions

September 2015 employment in the Northeast Minnesota planning area was 0.3 percent lower than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment had been slowly rising since the end of 2013, but this pattern appears to have been reversed in the last couple of quarters.

Note: seasonally adjusted labor market data are typically not available to evaluate regional economic performance so some series have been created to illustrate seasonal patterns of the regional labor market. Graphs of these indicators are found in this section of the report. Tabular data are not seasonally adjusted. To request access to seasonally adjusted series, please contact the SCSU School of Public Affairs Research Institute, sopareseach@stcloudstate.edu.

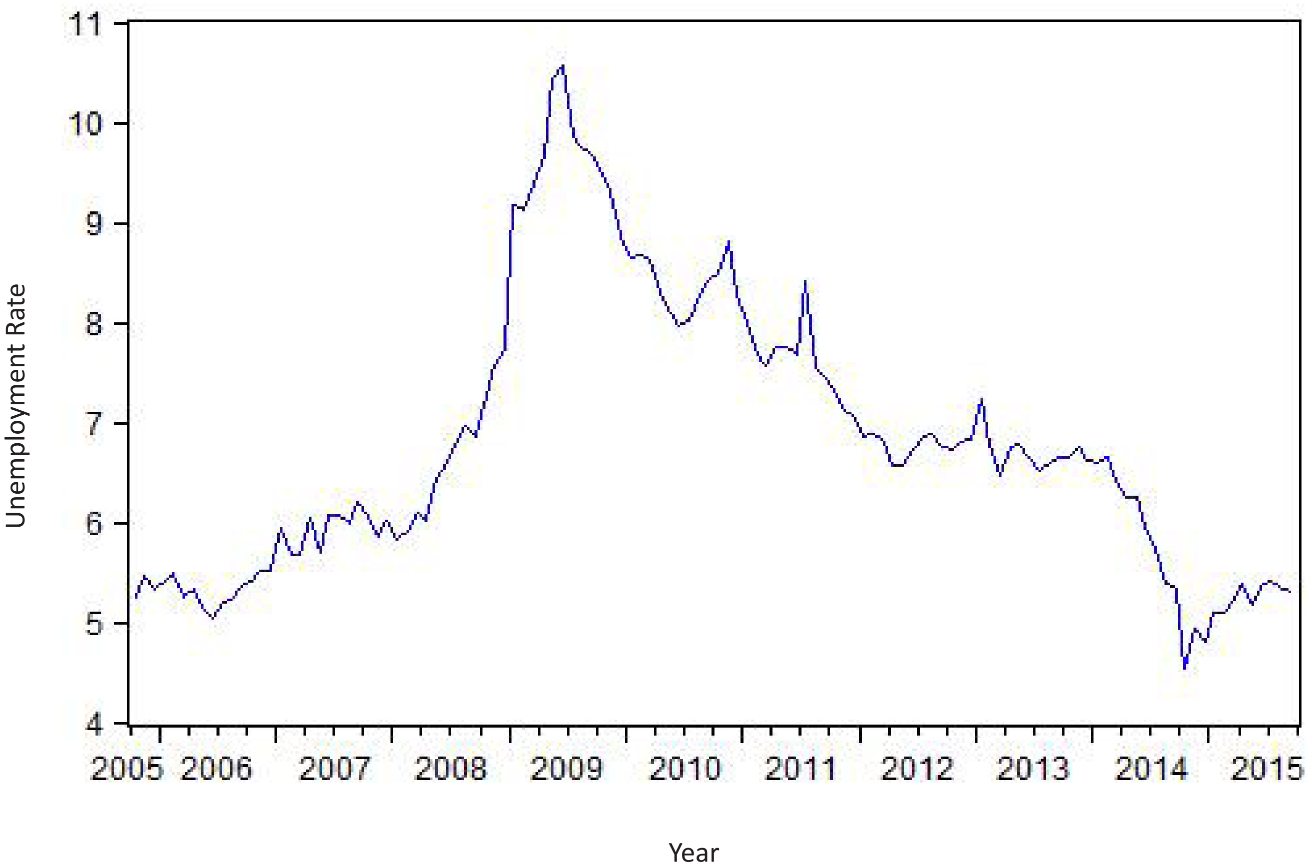
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Employment (Not seasonally adjusted)	155,970	154,279	156,851	157,422	157,250	156,470	155,427

The seasonally adjusted unemployment rate in Northeast Minnesota has been rising since the end of 2014. At 4.6 percent, the non-seasonally adjusted rate was higher than one year ago. Note that Northeast Minnesota has the highest unemployment rate of any of Minnesota's six planning areas.

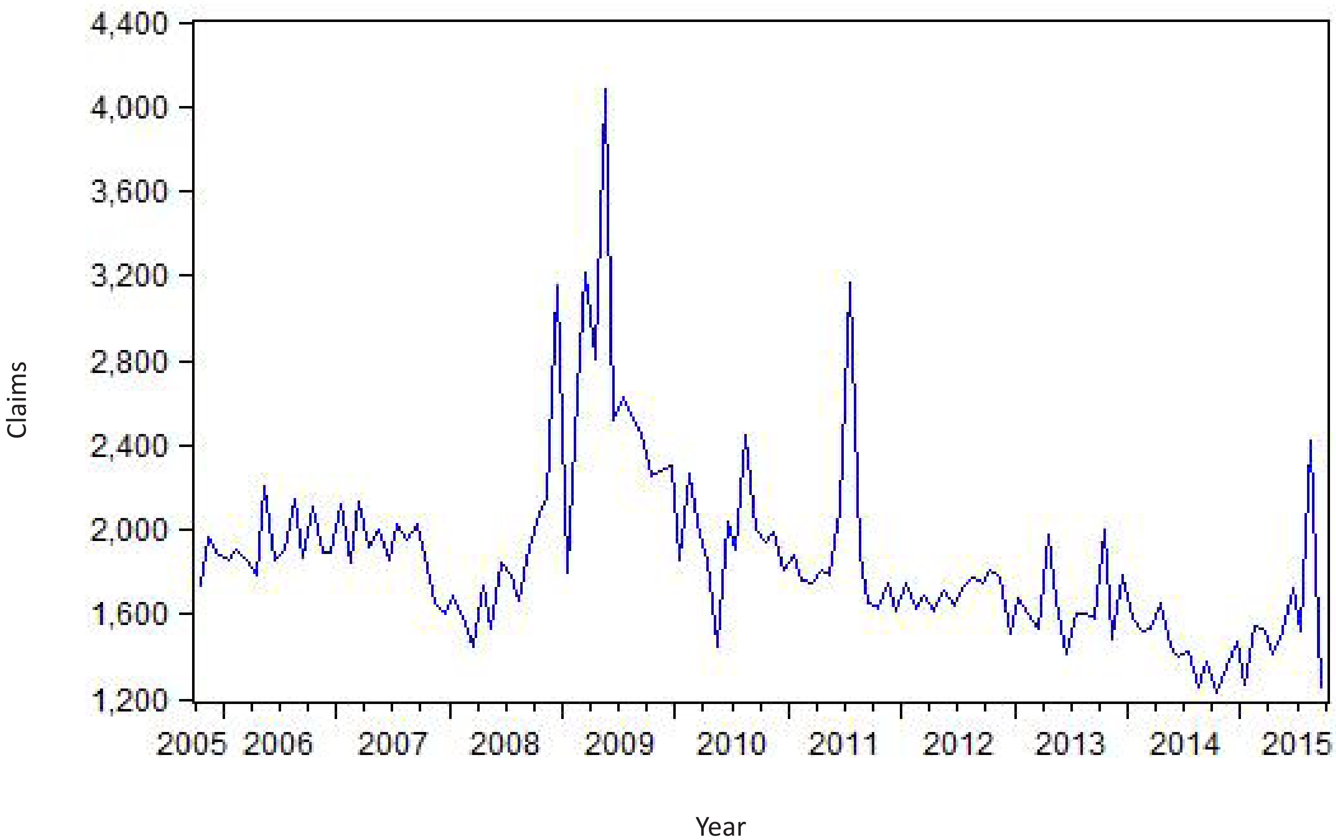
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Unemployment Rate (Not seasonally adjusted)	4.3%	5.6%	5.0%	5.6%	5.4%	4.8%	4.6%

On a seasonally adjusted basis, initial jobless claims in the Northeast region had been rising since the end of last year. However, claims fell sharply over the past three months. Third quarter initial jobless claims were 9 percent lower than one year ago.

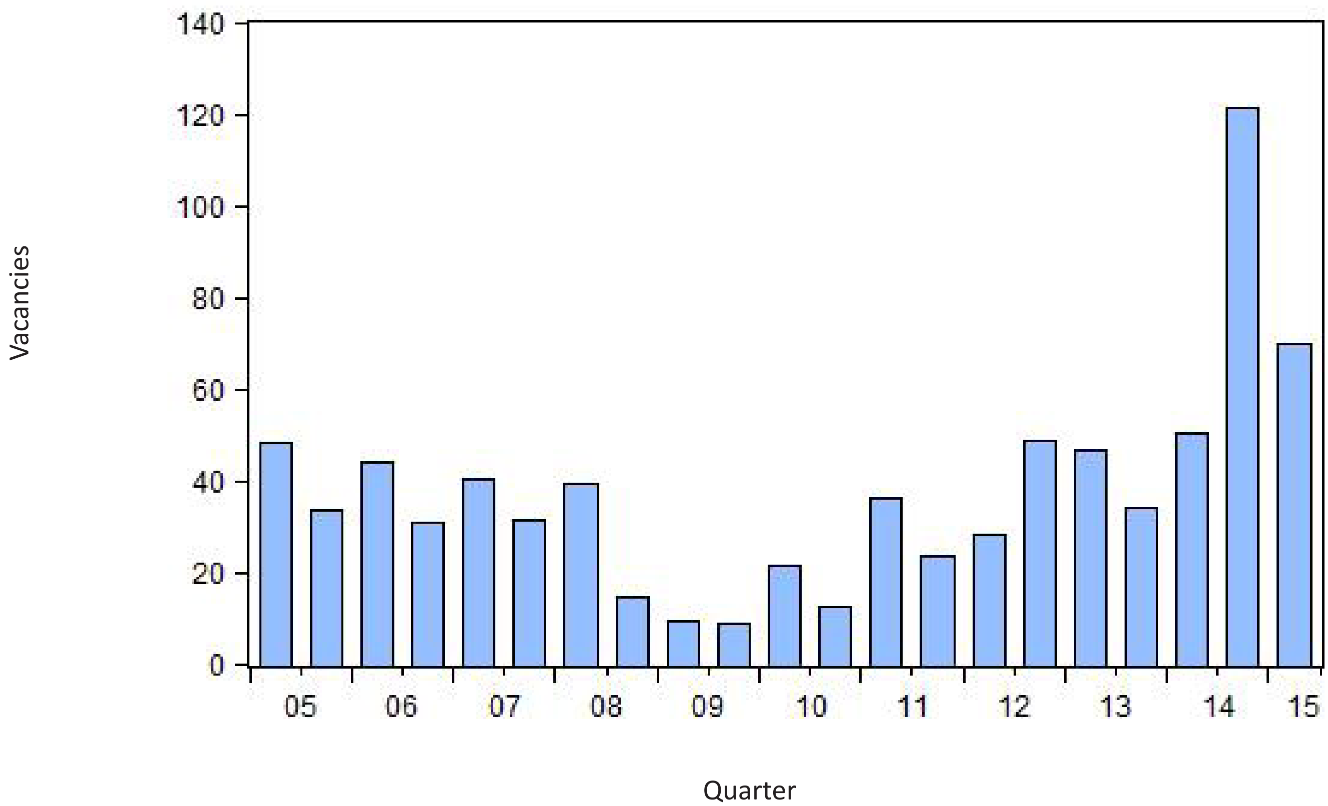
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Initial claims (Not seasonally adjusted)	1,009	1,237	1,343	1,493	1,186	1,515	918

Northeast Minnesota job vacancies spiked to a level of 121.47 vacancies per 100 unemployed in last year's final quarter. This rate declined considerably in this year's second quarter. Northeast Minnesota now has the lowest job vacancy rate of all of Minnesota's six planning areas.

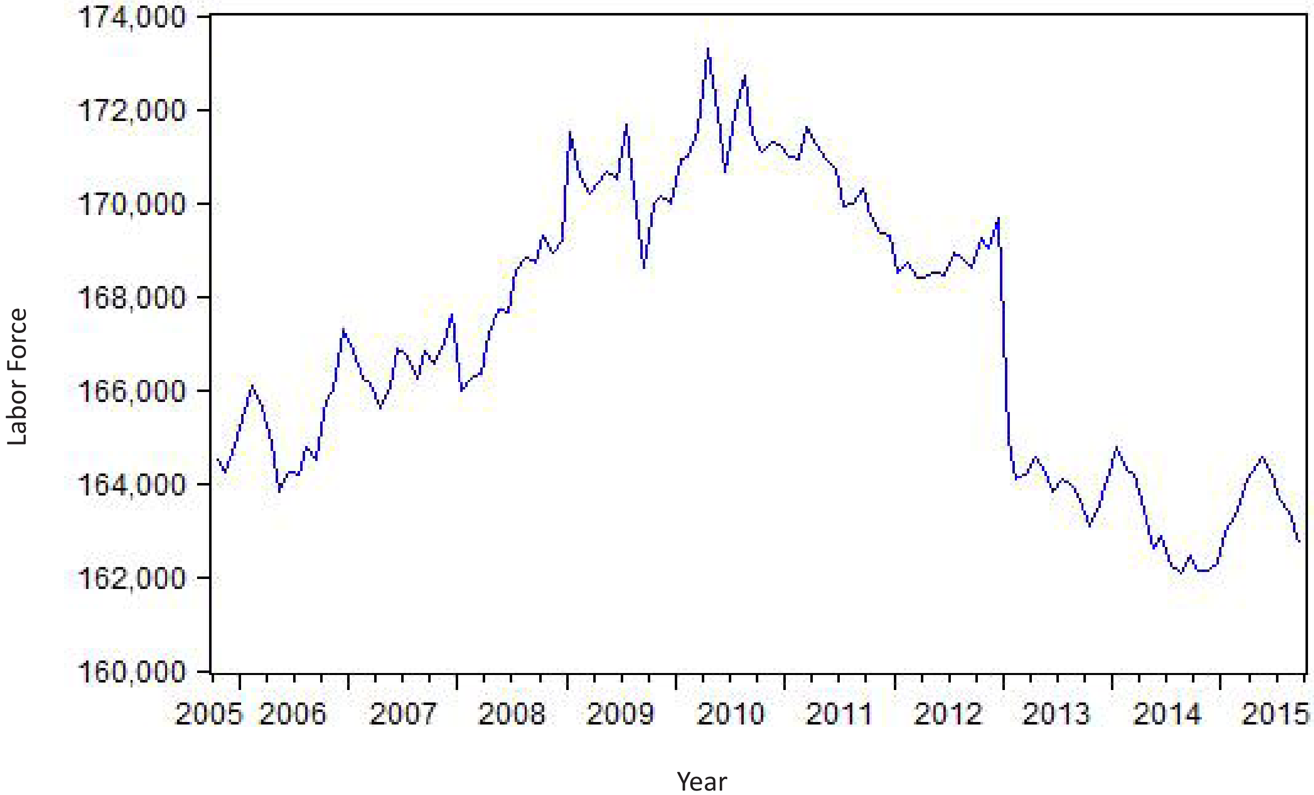
Job Vacancies per 100 Unemployed--Northeast Minnesota Planning Area



Quarter	2012:IV	2013:II	2013:IV	2014:II	2014:IV	2015:II
Job Vacancies per 100 Unemployed	54.13	46.50	37.37	52.68	121.47	69.79

The Northeast Minnesota labor force contracted slightly in the twelve month period ending September 2015. Using a 12-month moving average to account for seasonality, the regional labor force is little changed over the past two years but is well below that which was observed in 2010.

Labor Force—Northeast Minnesota Planning Area (12-month moving average)

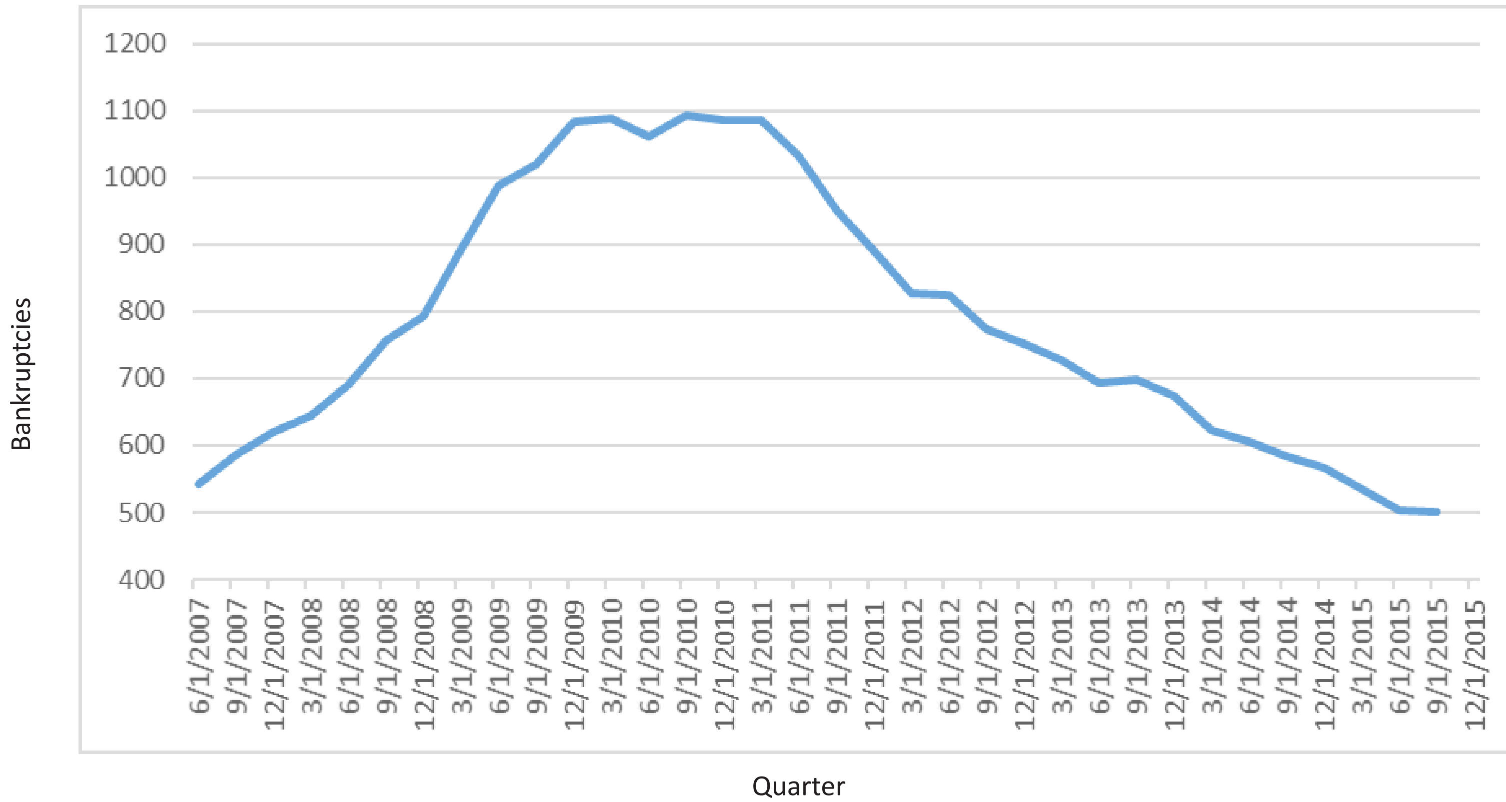


Year (September)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	167,581	165,203	164,863	164,397	163,012	162,919

Northeast Minnesota Bankruptcies

The figure below shows the 12-month moving total for Northeast Minnesota bankruptcies since the second quarter of 2007 (shortly before the beginning of the Great Recession). As can be seen in the figure, this moving total increased until the third quarter of 2009, then leveled out for a few quarters. The series has been gradually declining since the first half of 2011. With 501 bankruptcies over the past twelve months, the level of bankruptcies in Northeast Minnesota has now returned to a level last seen prior to the Great Recession.

Northeast Minnesota Bankruptcies (12-month moving total)



Year (Third Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	1092	951	774	699	585	501

Economic Indicators

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	September 2015 (m)	136,665	135,734	0.7% ↑	0.2%
Manufacturing Employment	September 2015 (m)	7,276	7,277	0.0% ↔	-2.0%
Educational and Health Sector Employment	September 2015 (m)	31,587	30,930	2.1% ↑	2.9%
Average Weekly Work Hours-Private Sector	September 2015 (m)	33.3	33.2	0.3% ↑	32.7 (since 2007)
Average Earnings Per Hour-Private Sector	September 2015 (m)	$24.84	$25.15	-1.2% ↓	3.7% (since 2007)
Unemployment Rate	September 2015 (m)	4.4%	4.2%	NA ↑	5.2%
Labor Force	September 2015 (m)	142,162	142,403	-0.2% ↓	0.0%
Duluth-Superior Residential Building Permit Valuation, in thousands	September 2015 (m)	2,311	7,938	-70.9% ↓	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where economic performance was mixed in September. Overall employment increased by 0.7 percent over the year ending September 2015 and employment in the key education/health sector (where more than 30,000 people have jobs) expanded at a 2.1 percent annual pace. The length of the average workweek rose, but average hourly earnings fell. The area unemployment rate also increased, while the labor force contracted. The value of residential building permits in the Duluth/Superior MSA declined sharply from levels reported one year earlier.

State and National Indicators

MINNESOTA Indicators	Sep 2015	Jun 2015	Sep 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,855,200	2,857,200	2,819,200	-0.1%	1.3%
Average weekly hours worked, private sector	33.9	34.1	34.1	-0.6%	-0.6%
Unemployment rate, seasonally adjusted	3.8%	3.9%	3.7%	NA	NA
Earnings per hour, private sector	$26.00	$25.70	$25.75	1.2%	1.0%
Philadelphia Fed Coincident Indicator, MN	176.38	175.11	171.14	0.7%	3.1%
Philadelphia Fed Leading Indicator, MN	2.17	1.28	1.21	69.5%	79.3%
Minnesota Business Conditions Index	53.0	54.3	66.3	-2.4%	-20.1%
Price of milk received by farmers (cwt)	$17.80	$17.90	$27.10	-0.6%	-34.3%
Enplanements, MSP airport, thousands	1,506.7	1,680.9	1,411.3	-10.4%	6.8%

NATIONAL Indicators	Sep-15	Jun-15	Sep-14	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	142,383	141,870	139,619	0.4%	2.0%
Industrial production, index, SA	107.4	106.7	106.7	0.7%	0.7%
Real retail sales, SA	188,171	186,611	184,083	0.8%	2.2%
Real personal Income less transfers	11,618.2	11,512.5	11,190.5	0.9%	3.8%
Real personal consumption expenditures	11,298.0	11,205.1	10,948.6	0.8%	3.2%
Unemployment rate, SA	5.1%	5.3%	5.9%	NA	NA
New building permits, SA, thousands	1,848	2,419	1,638	-23.6%	12.8%
Standard & Poor’s 500 stock price index	1,944.4	2099.28	1993.23	-7.4%	-2.4%
Oil, price per barrel in Cushing, OK	$45.48	$59.82	$93.21	-24.0%	-51.2%

Across the state there was growth in payrolls and higher earnings per hour in the private sector over the past twelve months. The seasonally adjusted unemployment rate was slightly higher and average weekly hours worked in the private sector were lower. Two of three broader indicators suggest improvement in the state economy in the third quarter. Milk prices were 34.3 percent lower than one year ago in September. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 6.8 percent over the last twelve months.

The national economic indicators reported in the table suggest strong economic performance at the national level. Compared to year earlier levels, industrial production, retail sales, real income, real consumption expenditures, payroll employment, building permits and the unemployment rate are all improved. Oil prices have declined significantly over the past year. While this has put additional discretionary income in the hands of consumers, it has also created dislocation in some key sectors of the economy. Stock prices were the only indicator that declined on a year-over-year basis in September 2015. These prices have since rebounded from these temporarily low readings.

The Northeast Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Paul Ryan and Joseph Kucan. Professor David Wall of the SCSU Geography Department provided GIS assistance.

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Metropolitan Airports Commission: MSP Enplanements.

Minnesota Department of Employment and Economic Development (and U.S. Department of Labor Bureau of Labor Statistics): Average Hourly Earnings, Average Weekly Work Hours, Employment, Initial Claims for Unemployment Insurance, Job Vacancies, Labor Force, Manufacturing Employment, Unemployment Rate.

Office of the Minnesota Secretary of State: Assumed Names, Business Incorporations, Limited Liability Companies, Non-Profits.

Standard & Poor's: Standard & Poor's 500 Stock Price Index.

Thomson Reuters and University of Michigan, Index of Consumer Sentiment

U.S. Bankruptcy Courts: Bankruptcies

U.S. Bureau of Census: Durable Goods Orders, Housing Permits, Residential Building Permits, Retail Sales.

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U.S. Department of Commerce Bureau of Economic Analysis: Real Personal Consumption, Real Personal Income, Real Wages and Salaries.

U.S. Energy Information Administration: Oil Prices.